

3-D Research Note on MSFT

MARKET PLAY



Chart courtesy of StockCharts.com

RATIONALE

- trade volumes go up after Jan 30 --> the stock is being accumulated by large traders
- implied volatility slipped to the historically low value (27.5%) --> options are fairly priced
- PEG (1.39), Forward P/E (15.60) < Trailing P/E (18.54), bullish EPS trend, negative news already priced in --> the stock looks a bit undervalued, fundamentals should provide support
- program trading buy orders at 32 (after Jan 30) --> large traders don't allow to drop any further, the stock should bottom out very soon
- unusually high open interest for Jan 09 35 Calls --> investors bet on the upturn
- supportive industry trend

OUR RECOMMENDATION: BUY AT THE 32 LEVEL

RECOMMENDED TRADING VEHICLE:

Buy Call:

Buy to Open MSFT Jan9 35 Call at 2.32, Target 2.60, Stop 1.5

BULLISH PLAY

BUY STOCK

Stock Symbol	Last Stock Price	Recommended Entry Stock Price	Break-even	Sum Invested (per share)	Projected Stop Price	Max Loss (per share)	Max Profit (per share)	Exit Price (Target Price)	Target Profit (per share)	Target Return
MSFT	32.60	32.40	32.40	32.40	31.50	0.90	Unlimited	34.50	2.10	6.5%

BUY CALL

Stock Symbol	Last Stock Price	Expiration Month	Strike Price	Option Symbol	Recommended Entry Stock Price	Entry Call Option Price	Break-even	Max Profit (per one contract)	Sum Invested (per one contract)	Exit Price (Target Price)	Target Profit (per one contract)	Target Return
MSFT	32.60	Jan-09	35.00	.VMFAG	32.40	2.32	37.32	Unlimited	2.32	2.60	0.28	12.1%

BULLISH PUT SPREAD

Stock Symbol	Last Stock Price	Expiration Month	Lower Strike	Option Symbol	Higher Strike	Option Symbol	Recommended Entry Stock Price	Entry Credit	Break-even	Max Profit (per one contract)	Sum Invested (per one contract)	Exit Debit (Target Debit)	Target Profit (per one contract)	Target Return
MSFT	32.60	Jan-09	30.00	.VMFMF	35.00	.VMFMG	32.40	2.32	32.68	2.32	2.68	1.90	0.42	15.7%

BULLISH CALL SPREAD

Stock Symbol	Last Stock Price	Expiration Month	Lower Strike	Option Symbol	Higher Strike	Option Symbol	Recommended Entry Stock Price	Entry Debit	Break-even	Max Profit (per one contract)	Sum Invested (per one contract)	Exit Credit (Target Credit)	Target Profit (per one contract)	Target Return
MSFT	32.60	Jan-09	30.00	.VMFAF	35.00	.VMFAG	32.40	2.50	32.50	2.50	2.50	3.00	0.50	20.0%

SHORT GLOSSARY

Break-even. Point at which gains equal losses. This is the market price that a stock must reach for an option to avoid loss if exercised. For a call, the break-even equals the strike plus the premium paid.

Call option. The right, but not the obligation, to buy the stock at a predetermined price (also known as the strike) at any moment before the expiration date for a paying a premium.

Put Option - the right, but not the obligation, to sell stock at a predetermined price (also known as a strike) at any moment before the expiration date.

Expiration Date. The day when an option contract becomes void (the Saturday after the third Friday of the expiration month).

In-the-Money Option. An option that has intrinsic value. A call (put) option is in-the-money if the strike is less (greater) than the current market price of the stock.

Intrinsic Value: The value of an option if it were to expire immediately with the underlying stock at its current price or the amount by which an option is in-the-money. For call options, this is the difference between the stock price and the striking price, if that difference is a positive number, or zero otherwise. For put options it is the difference between the striking price and the stock price, if that difference is positive, and zero otherwise.

Spread. A position with long and short options of the same type on the same underlying stock or index.

Time Value. Amount by which the current market price of an option exceeds its intrinsic value (the difference between the stock price and the strike). This additional value of an option is due to the volatility of the market and the time remaining until expiration.

Auto-trade in 5 easy steps

optionsXpress	thinkorswim
1. Log into your brokerage account.	1. Log into your brokerage account.
2. Select Xecute, select OptionSmart as an Investor Publisher	2. Select Autotrade, click Sign Up/Newsletter Providers and choose OptionSmart as newsletter provider
3. Select a service	3. Select Autotrade Management, click Allocations (per trade)
4. Determine Amount Type (Specific Dollar Amount, # of Contracts/Shares, % of Cash Available, % of Buying Power, % of Total Account Value)	4. Determine Amount Type (Specified Dollar Amount, Specified Quantity, % of Available Buying Power, % of Net Liquidating Value)
5. Select a Trade Amount	5. Select a Trade Amount

There is risk in trading options. One's financial suitability should be considered carefully before placing any trades. Past performance is not indicative of future results.

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